U. S. DEPARTMENT OF AGRICULTURE
Farm Security Administration
WASHINGTON 25, D. C.

THE VARIABLE PAYMENT PLAN

for repaying FSA Farm Ownership Loans

If you receive a Farm Ownership Loan from Farm Security, you will repay it under a Variable Payment Plan. The following is an explanation of the way this plan works.

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1. **What is the Variable Payment Plan?**

It is a plan whereby you repay more on your Farm Ownership Loan in good years and less in bad years. This enables you to get ahead on repayments when your income is better than usual, so that you can ease up in years when it is hard for you to make payments. You pay as you are able under this plan, but at the same time your payments must average out so that they will retire both the principal and interest of your debt in 40 years.

2. **How does it work?**

At the end of each year, the FSA county supervisor will go over your record book with you and will help you make out a statement showing your total income and expenses for that year. The size of your net cash income—the money you have left after subtracting expenses from earnings—will determine the size of your payment to Farm Security. If your net cash income is large, you will be expected to make a large payment. If it is small, only a small payment will be expected.

3. **How does the Variable Payment Plan differ from the way mortgages are usually repaid?**

Usually a borrower would be expected to pay a fixed amount each year, regardless of his income. If you were to repay FSA on this basis, you would need to pay 4.326 percent of your loan every year to retire both the principal and interest in 40 years. For example, a $5,000 loan would call for an annual payment of $216. But because farmers do not have regular incomes, it is sometimes hard for them to make fixed payments.

4. **What will be my chief obligation under the Variable Payment Plan?**

You must pay more in good years, so that you can pay less in bad years. Unless you do pay more in good years, your payments will not average out so that they will retire your debt in 40 years.

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5. What is meant by being "up to schedule," "ahead of schedule," and "behind schedule," under the Variable Payment Plan?

You will be "up to schedule" when you have paid exactly at the rate necessary to retire your debt in 40 years; "ahead of schedule" if you have paid more than that; "behind schedule" if you have paid less than that. You should try to get well ahead of schedule so that you will be able to tide yourself over bad years.

6. What part of my net income must I pay under the Variable Payment Plan?

(a) If you are more than 2 years ahead of schedule, the amount you pay will largely be left up to you. You will no doubt want to maintain or increase your margin of safety by making further substantial payments if you can.

(b) If you are ahead of schedule, but less than 2 years ahead, you will **usually** be expected to pay all of your net cash income after first paying what you owe on other debts.

(c) If you are not ahead of schedule and the amount you can pay in a given year will not place you ahead, you will be expected to pay all of the net cash income you have left after meeting any current installment you may have on a chattel debt.

7. Will the Variable Payment Plan reduce the amount of money I have for living and operating expenses?

No, your necessary living and operating expenses come ahead of your land payment. Of course, your expenses must not be extravagant. Land should be in line with your farm and home management plan.

8. How about saving additional money for next year's operating expenses?

When you are ahead of schedule on your Farm Ownership Loan repayments, or the amount you can pay in a given year will place you ahead, you may keep a part of your net cash income for next year's expenses if this is the wisest use of your money. After you once get 2 years ahead of schedule, you can increase your operating capital rapidly because the use of your net cash income will be largely a matter of your

own choice. Unless you are up to schedule, you will not be expected to hold back any of your net cash income. You will be eligible for an FSA rehabilitation loan for operating and living expenses if you need one.

9. Will the Variable Payment Plan force me to pay off my loan in less than 40 years?

No, the Plan will not deprive any borrower of the privilege of using the full 40-year period allowed to retire his debt. Its purpose is to help each borrower create a margin of safety on repayments to carry him over years of low income. On the other hand a borrower may pay off his debt as rapidly as he wants, except that no final payment can be accepted in less than 5 years without approval from FSA. This is required by law in order to avoid speculation on farms purchased with government loan funds.

10. When does my loan become delinquent?

Your loan will become delinquent only when you fail to pay the amount determined to be due in any particular year. You might be behind schedule part of the time, but that will not make your loan delinquent.

11. Can I lose my farm under the Variable Payment Plan?

Yes, you can lose your farm under the Variable Payment Plan but you are less likely to do so than you would be if you were obliged to pay a definite amount each year.

12. Will I have to keep accurate records under the Variable Payment Plan?

Yes, but not because of the Variable Payment Plan. The requirement that you keep records is for your benefit. It will help you plan wisely and operate efficiently. Your FSA supervisor will give you any assistance you need in getting started on your record book.

13. Where can I get more information on Farm Security assistance?

At the FSA office for your county. The FSA supervisor will be glad to answer any questions you may have, and he will give you an application blank if you wish to apply for a Farm Ownership Loan.

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